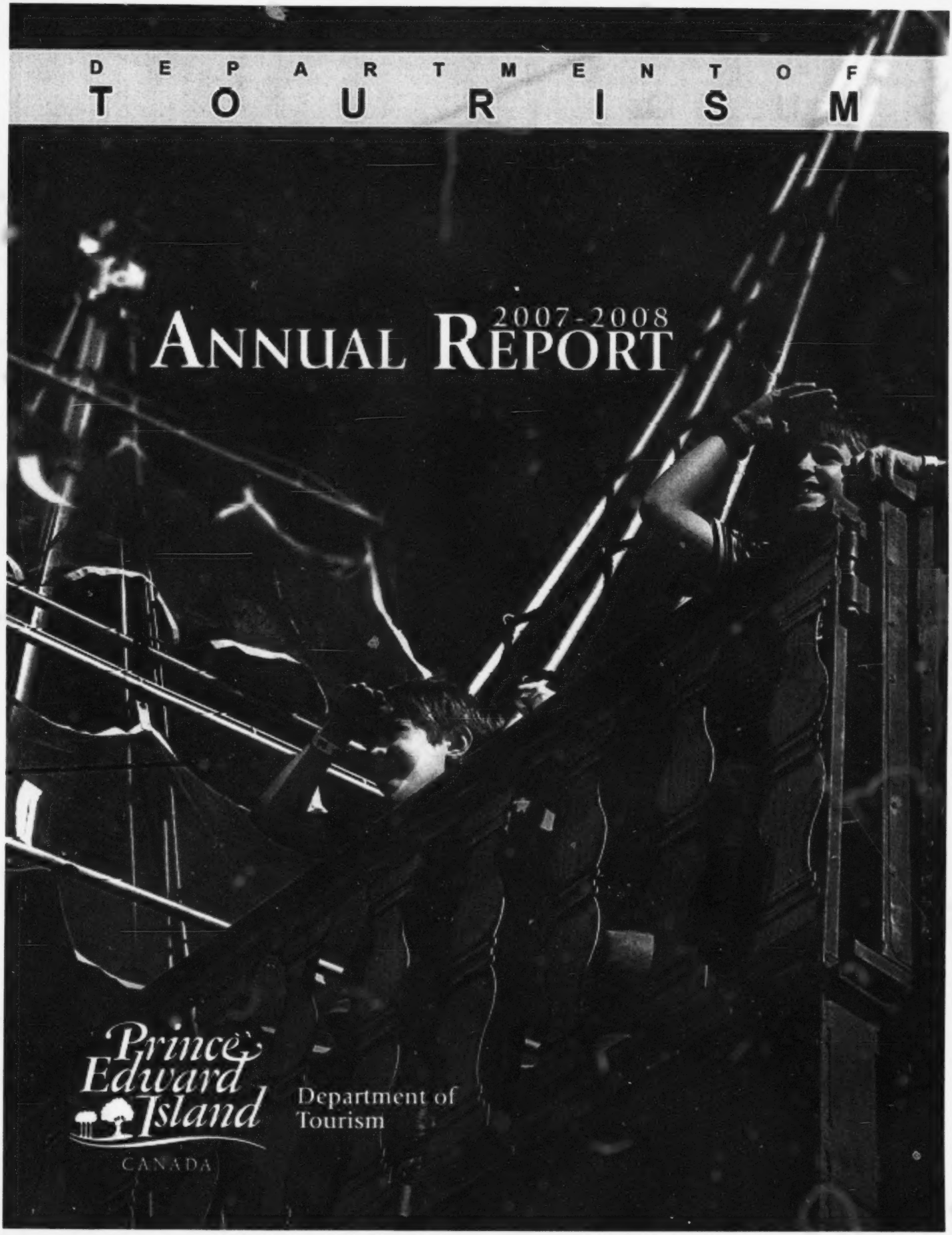
DEPARTMENT OF
TOURISM



2007-2008 ANNUAL REPORT

Prince Edward Island
CANADA

Department of Tourism

Prince Edward Island
Department of Tourism

Annual Report

2007-2008

2006 Recap

Tourism PEI undertook several initiatives in 2006. This included programs to help improve tourism human resources and help tourism operators, the launch of a new website/brand, and enhancing PEI's research capacity when it comes to tourism. Several events led to publicity of the Island, including the East Coast Music Awards, Making the Connection – Legends of Golf, the Festival of Lights, and the Luminosity Festival.

2007 Statistics

Occupancy rates were up in 2007 by 1.6% and overnight stays were up by 3%. Visitation was up by 1.1% and the estimated total direct revenue from non-residents was up by 4.4%. PEI's Key Target Markets continue to include Atlantic Canada, New England, Ontario, and Quebec, with international countries being a secondary market. External pressures affected Atlantic Canada's tourism industry. Canadian & US consumers are traveling closer to home because of gas prices and other issues.

Gasoline prices stayed relatively elevated throughout the summer months and into the fall. The US Dollar experienced a drastic decline versus the Canadian dollar in 2007. Air traffic at the Charlottetown Airport is continuing the pattern of growth seen in 2006, finishing up by 12% for 2007. Some of this growth can be attributed to seasonal direct flights to both Detroit and Boston in 2007.

300,000 copies of the Prince Edward Island Visitor's Guide were printed for the 2007 season and will be distributed through the Island's Visitor Information and Destination Centres, as well as by direct mail through the call centre. This year's guide is intended to promote the brand positioning of the Gentle Island of Rejuvenation.

Inquiries to the call centre were down for the year 24.6%. The number of packages of tourism information mailed out for 2007 was down 20% from last year.

2007 Priorities and Activities

Tourism PEI continued to build the PEI brand in 2007.

There is a growth in interest in 'self actualization'; the consumer is seeking exciting new experiences and personal enrichment. There is also a growing popularity of activities that promote stress reduction because consumers don't feel they have enough vacation time. Along with the release of the 2007 Visitors Guide, a new vacation package publication - Genuine Island Experiences - has been produced.

This publication was created as a result of an extensive effort by Island tourism operators and Tourism PEI to better promote the province, through packaging that incorporates accommodations, activities and specialized promotions. In addition to the being included with all mailed vacation planning kits, Tourism PEI printed an extra 450,000 copies which was inserted in Ontario newspapers in the spring. The packages are posted on the website in a new, easier-to-use format as well.

The Internet is the #1 source of travel information. 70% of frequent travelers use the Internet to gather information and make decisions. Tourism PEI is working to encourage "book-ability" and investment in the Integrated Tourism Solution. Consumers are accustomed to ease of access for information gathering and booking.

An Integrated Technology Solution is needed for all contact points with the consumer in order to entice them to close the sale. The platform will integrate the website, call centre and Visitor Information Centres with one central database and an on-line reservation system that is 'real time.'

Efforts were made at enhancing product development in reference to beaches, culture, the Confederation Trail, Blue Heron Touring region and Festival and Events. Industry outreach included communicating to regions and sector groups through the Tourism Research Centre and communicating the brand to tourism groups and operators. Tourism PEI will continue to support growth and investment in air travel, cruise travel, meeting and conventions, and the golf market, as well as expanding knowledge with research.

Appendix A

Financial Statements

Tourism PEI

Consolidated Financial Statements
March 31, 2008

Arsenault Best Cameron Ellis
CHARTERED ACCOUNTANTS

ArsenaultBestCameronEllis
CHARTERED ACCOUNTANTS

A Member Firm of The AC Group of Independent Accounting Firms Limited

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May 13, 2008

Auditors' Report

To the Minister of Tourism

We have audited the consolidated balance sheet of **Tourism PEI** as at March 31, 2008 and the consolidated statements of earnings, deficit and cash flows for the year then ended. These consolidated financial statements have been prepared, in accordance with Canadian generally accepted accounting principles. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ArsenaultBestCameronEllis

Chartered Accountants

Tourism PEI

Consolidated Balance Sheet

As at March 31, 2008

	2008 $	2007 $
Assets		
Current assets		
Cash	-	1,297,508
Accounts receivable (note 7)	843,803	1,054,026
Due from the Province of Prince Edward Island (note 4)	2,379,210	-
Inventory	132,495	174,202
Prepaid expenses	142,019	211,844
	3,497,527	2,737,580
Property and equipment (notes 3 and 7)	7,785,574	8,427,465
	11,283,101	11,165,045
Liabilities		
Current liabilities		
Bank advances	20,989	-
Promissory notes (note 5)	2,583,437	5,100,000
Accounts payable and accrued liabilities (note 7)	2,469,392	1,542,126
Due to the Province of Prince Edward Island (note 4)	-	1,094,087
Deferred membership revenue	11,318	20,452
Current portion of long-term debt	701,085	726,978
	5,786,221	8,483,643
Long-term debt, less current portion (note 6)	5,496,880	6,197,965
	11,283,101	14,681,608
Deficit	-	3,516,563
	11,283,101	11,165,045

Approved by the Corporation

Minister

Tourism PEI

Consolidated Statement of Deficit

For the year ended March 31, 2008

	2008 $	2007 $
Deficit - Beginning of year	(3,516,563)	(2,122,041)
Excess revenue (expenses) for the year	3,516,563	(1,394,522)
Retained earnings (deficit) - End of year	-	(3,516,563)

Tourism PEI

Consolidated Statement of Earnings

For the year ended March 31, 2008

		2008	2007
	Budget (unaudited) $	Actual $	Actual $
Revenue			
Grants from Province of Prince Edward Island (note 7)	15,197,900	20,712,786	13,607,217
Tourism Advisory Council	1,364,600	1,306,231	1,357,774
Brookvale Ski Park	282,200	308,862	230,223
Provincial Parks	848,400	903,911	854,296
Visitor Services	125,000	105,917	203,594
Golf Links operations	4,726,900	4,932,367	4,789,096
	22,545,000	28,270,074	21,042,200
Expenses			
Administration	1,071,700	1,134,313	899,563
Tourism Advisory Council	7,323,600	7,525,659	6,435,461
Brookvale Ski Park	506,400	595,449	478,025
Provincial Parks (note 7)	2,969,500	3,019,889	2,980,821
Visitor Services	516,800	524,770	536,553
Tourism Development	2,887,100	2,993,729	2,554,724
Tourism Marketing	2,133,100	2,218,738	1,944,524
Research	156,000	143,908	145,650
French Services	253,900	289,040	290,096
Golf Links operations (note 7)	5,336,100	5,438,728	5,301,166
Interest on long-term debt - Golf Links (note 7)	362,000	331,492	361,682
Amortization - Golf Links	591,700	526,465	520,642
	24,107,900	24,742,180	22,448,907
	(1,562,900)	3,527,894	(1,406,707)
Other income (expense)			
Gain (loss) on disposal of property and equipment - Golf Links	-	(11,331)	12,185
Excess revenue (expenses) for the year	(1,562,900)	3,516,563	(1,394,522)

Tourism PEI

Consolidated Statement of Cash Flows

For the year ended March 31, 2008

	2008 $	2007 $
Cash provided by (used in)		
Operating activities		
Excess revenue (expenses) for the year	3,516,563	(1,394,522)
Amortization of property and equipment	526,465	520,642
Loss (gain) on sale of property and equipment	11,331	(12,185)
	4,054,359	(886,065)
Net change in non-cash working capital items		
Decrease in accounts receivable	210,223	102,253
Decrease in inventory	41,707	32,676
Decrease (increase) in prepaid expenses	69,825	(139,018)
Increase in due from the Province of Prince Edward Island	(2,379,210)	-
Increase (decrease) in accounts payable and accrued liabilities	927,266	(52,791)
Increase (decrease) in deferred membership revenue	(9,134)	20,452
Increase (decrease) in due to the Province of Prince Edward Island	(1,094,087)	1,168,570
	1,820,949	246,077
Financing activities		
Increase (decrease) in promissory notes - net	(2,516,563)	1,300,000
Proceeds on long-term debt	-	660,000
Repayment of long-term debt	(726,978)	(823,026)
	(3,243,541)	1,136,974
Investing activities		
Purchase of property and equipment	-	(760,205)
Proceeds on disposal of property and equipment	104,095	110,183
	104,095	(650,022)
Increase (decrease) in cash	(1,318,497)	733,029
Cash - Beginning of year	1,297,508	564,479
Cash (bank advances) - End of year	(20,989)	1,297,508
Supplementary disclosure		
Interest paid	652,022	540,017

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2008

1 Basis of presentation

Consolidation

These financial statements include the operations of Tourism PEI and its wholly-owned subsidiary, Golf Links Prince Edward Island Inc.

Status of the corporation

Tourism PEI became a Crown corporation effective March 31, 1999 under the Tourism PEI Act passed by the Government of Prince Edward Island on June 8, 1999. The objectives of Tourism PEI are to carry out tourism related activities of the Province of Prince Edward Island.

The objectives of Golf Links Prince Edward Island Inc. are to maintain and operate the provincially owned golf courses.

The financial results of the corporation are included in the public accounts of the Province of Prince Edward Island.

2 Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of significant accounting policies used in preparation of these financial statements.

Inventory

Inventory is valued at the lower of cost, determined using the average cost method, and market. Market is defined as net realizable value.

Property and equipment

Tourism PEI expenses property and equipment in the period purchased except for real property acquired by the company which is recorded as an asset.

Real property transferred to Tourism PEI at no cost is recorded at a nominal value.

Golf Links Prince Edward Island Inc. records at cost, property and equipment having a useful life of greater than one year as an asset in the period purchased.

Amortization

Amortization is calculated using the straight-line method at the annual rates as indicated in note 3. One-half the normal annual rate of amortization is recorded in the year of acquisition. No amortization is recorded in the year of disposal.

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2008

Capital costs related to the construction of the playing areas of the Dundarave Golf Course are not amortized.

Due to (from) the Province of Prince Edward Island

Current operations:

Excess revenue (expenses) for the year for Tourism PEI is recorded as a reduction (increase) in Grants - Province of Prince Edward Island and as an amount due to (from) the Province of Prince Edward Island. Golf Links Prince Edward Island Inc. records excess revenue (expenses) as an increase (decrease) in retained earnings (deficit).

Revenue recognition and government assistance

Tourism PEI

Grants from the Province of Prince Edward Island are recorded as revenue when received. Revenue from Tourism Advisory Council activity is recorded when billed and revenue from park operations, services and fees is recorded when earned as services are provided. Excess revenue (expenses) for the year for the Tourism PEI entity is recorded as a reduction (increase) in Grants - Province of Prince Edward Island and as an amount due from (to) the Province of Prince Edward Island.

Government grants funded by the federal government or a federal-provincial cost-shared agreement, received related to operations, are recorded as revenue in the period in which the related expenses are recorded. Unexpended amounts as at the year end are recorded as deferred revenue.

Federal and provincial government grants related to property and equipment are recorded as a reduction in the cost of the related assets in the period purchased. Unexpended amounts as at the year end are recorded as an accrued liability.

Expenses are recorded in the period in which the related goods and services are consumed except for Tourism Advisory Council and program grants included in Tourism Development and Tourism Marketing expenses. Tourism Advisory Council expenditures are recorded in the period the goods and services are acquired and a liability incurred. Program grant expenditures are recorded in the period in which the funds are approved for disbursement.

Golf Links Prince Edward Island Inc.

Revenue from green fees, golf shop, rentals and concessions is recognized when goods or services are delivered to the customer and ultimate collection is reasonably assured.

Revenue from memberships is recognized in the period earned and when ultimate collection is reasonably assured.

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2008

Vacation pay and pension liabilities

The staff of Tourism PEI and Golf Links Prince Edward Island Inc. are employees of the Province of Prince Edward Island. Direct costs for employees of the Province of Prince Edward Island allocated to Tourism PEI and Golf Links Prince Edward Island Inc. are charged to the company on a per-payroll basis. Since the staff are employees of the Province, accrued vacation pay and pension obligations are liabilities of the Province and not the corporation and no liability for these costs has been accrued by the corporation as at March 31, 2008.

Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period.

Changes to Accounting Standards - financial instruments

Effective April 1, 2007, Tourism PEI adopted the following new accounting standard issued by the Canadian Institute of Chartered Accountants.

Section 3855, *Financial Instruments - Recognition and Measurement*, which describes the standards for recognizing and measuring financial assets, financial liabilities and derivatives. This section requires that:

- all financial assets be measured at fair value, with some exceptions for loans and investments that are classified as held-to-maturity;
- all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their amortized cost.
- all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

Section 3861, *Financial Instruments - Disclosure and Presentation*, which replaced Section 3860 and provided additional presentation and disclosure requirements in relation to the issuance of Section 3855. The majority of these standards were previously contained in Section 3860.

Due to the nature of Tourism PEI's operations, the adoption of these new standards has only resulted in additional information being provided in the notes to the financial statements.

Financial instruments

Financial instruments are comprised of cash, accounts receivable, bank advances, promissory notes, accounts payable and accrued liabilities and due to the Province of Prince Edward Island. Due to their short-term nature, all the financial instruments are considered to be carried at amounts which approximate their fair value.

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2008

Financial risk management objectives and policies

Tourism PEI's risk management policies are part of the overall management of the entity's operations. Management's direct involvement in day-to-day operations identifies risks and variations from expectations leading to changes in risk management activities, requirements and actions. Management has not entered into hedging transactions to manage risk. As part of the overall management of the entity's operations management considers avoidance of undue concentrations of risk, and employs appropriate investment and credit management policies to manage Tourism PEI's exposure.

3 Property and equipment

	Amortization rate %	Cost $	Accumulated amortization $	2008 Net $	2007 Net $
Land and buildings - Mill River Fun Park		1	-	1	1
Dundarave golf course	-	6,122,211	-	6,122,211	6,122,211
Land improvements and paving	10 - 20	706,725	356,941	349,784	420,878
Computer equipment and software	20	235,345	202,816	32,529	54,639
Power cars	14.3	564,600	115,380	449,220	641,566
Rental equipment	20	61,853	55,036	6,817	15,304
Equipment	10 - 20	3,355,557	2,776,954	578,603	858,533
Vehicles	20	93,004	92,120	884	4,382
Buildings	10	580,798	350,530	230,268	288,348
Signage	5	31,729	16,472	15,257	21,603
		11,751,823	3,966,249	7,785,574	8,427,465

4 Due from (to) the Province of Prince Edward Island

	2008 $	2007 $
Capital projects	1,037,500	-
Current operations		
Excess expenditures (revenue) for the year - Tourism PEI	1,341,710	(1,094,087)
	2,379,210	(1,094,087)

5 Promissory notes

The promissory notes are due April 1, 2008, bear interest at monthly floating interest rates and are repayable to the Department of Provincial Treasury of Prince Edward Island. The notes are unsecured.

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2008

6 Long-term debt

	2008 $	2007 $
4.87% loan from the Department of Provincial Treasury of Prince Edward Island, due December 7, 2020, repayable at $563,681 annually including interest	5,336,665	5,626,343
4.51% loan from the Department of Provincial Treasury of Prince Edward Island, due March 31, 2009, repayable $65,300 annually plus interest	65,300	130,600
4.21% loan from the Department of Provincial Treasury of Prince Edward Island, due March 31, 2009, repayable $100,000 annually plus interest	100,000	200,000
4.67% loan from the Department of Provincial Treasury of Prince Edward Island, due March 31, 2011, repayable $100,000 annually plus interest	300,000	400,000
5.01% loan from the Department of Provincial Treasury of Prince Edward Island, due March 31, 2011, repayable at $132,000 annually plus interest	396,000	528,000
4.35% loan from the Department of Provincial Treasury of Prince Edward Island, repaid during the year	-	40,000
	6,197,965	6,924,943
Less: Current portion	701,085	726,978
	5,496,880	6,197,965

The long-term debt is unsecured.

The aggregate amount of principal payments estimated to be required in each of the next five years to meet retirement provisions is as follows:

	$
Year ending March 31, 2009	701,085
2010	550,579
2011	566,095
2012	350,365
2013	367,428

7 Related party transactions

Tourism PEI utilizes the provincial parks, including Brookvale Ski Park, the provincial day parks and the full service campgrounds, as well as the Visitor Information Centres in carrying out its mandate. Tourism PEI has paid nil consideration for utilizing these facilities.

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2008

Golf Links Prince Edward Island Inc. utilizes provincial golf courses from the Province of Prince Edward Island for nil consideration.

During the 1999 year, the Province of Prince Edward Island transferred property and equipment utilized in maintenance and operation of the three provincial golf courses to Golf Links Prince Edward Island Inc. In accordance with the terms of the transfer, the exchange and carrying amounts of the property and equipment was established as $1.

Included in accounts receivable is an amount of nil (2007 - $7,163) due from a provincial Crown corporation. Included in accounts payable and accrued liabilities is $39,638 (2007 - $45,332) due to a department of the Province of Prince Edward Island, $488 (2007 - $11,206) due to Prince Edward Island Business Development Inc., a provincial Crown corporation, and $1,143 (2007 - $1,357) due to Environmental Industrial Services Inc., a subsidiary of Prince Edward Island Business Development Inc.

During the year, the companies paid a total of $563,311 (2007 - $539,387) in interest to the Department of Provincial Treasury of Prince Edward Island. Included in this total is $331,492 (2007 - $361,682) of interest on long-term debt related to loans issued by the Department of Provincial Treasury of Prince Edward Island. Of the remainder, $231,819 (2007 - $171,505) is included in Golf Links operations and nil (2007 - $6,200) is included in Tourism PEI expenses.

Included in revenue is $20,712,786 (2007 - $13,607,217) in grants received from the Province of Prince Edward Island.

8 Commitments

The minimum annual lease payments required over the next five years by Golf Links Prince Edward Island Inc. under operating leases for base rentals including premises in Brudenell and Mill River expiring in August 2009 and August 2075 respectively and for an equipment lease expiring in November 2011 are as follows:

	Equipment $	Premises $
Year ending March 31, 2009	109,346	50,927
2010	109,346	-
2011	96,342	1
2012	96,342	1
2013	-	1

In addition to the base lease rentals, there is a requirement to pay the company's pro-rata share, based on rented space, of the operating costs including property taxes of the premises.

Tourism PEI

Notes to Consolidated Financial Statements
March 31, 2008

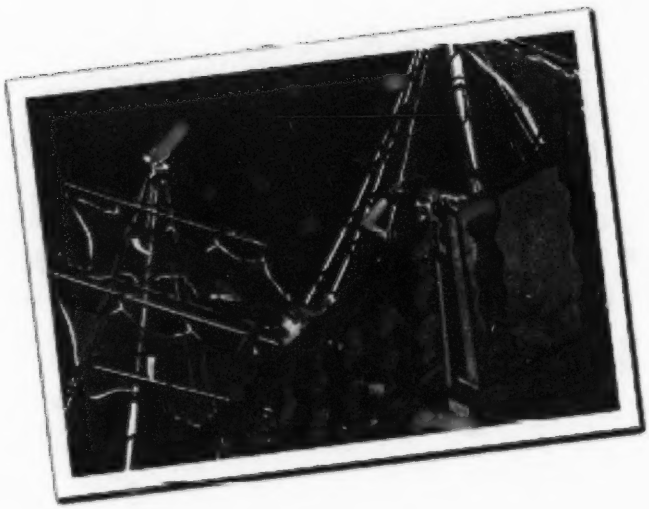
9 Event management agreement commitment

Tourism PEI entered into an agreement to co-promote an event in 2006 and 2007 which required an annual deposit payment of $400,000 to support the cash flow requirements of the event. If in any year revenues of the event are not sufficient to offset all costs, Tourism PEI would be responsible for any shortfall with such cost to Tourism PEI limited to the $400,000 deposit payment plus any shortfall on event operations.

The net shortfall from the 2007 event, on top of the deposit payment, expensed by Tourism PEI in the 2008 year was $131,811.

10 Subsequent event

Effective April 1, 2008, the Department of Transportation and Public Works purchased Dundarave Golf Course and the former Golf Academy property for $6,122,200 from Golf Links Prince Edward Island.



Prince Edward Island
CANADA

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